OMB 123, Appendix A

Process of Assessing Internal Controls Over Financial Reporting

Mary Braun

Office of the Under Secretary of Defense (Comptroller)

Financial Improvement and Audit Readiness Directorate

Identify Internal Controls

Identify your key internal controls

- What internal controls are in place to mitigate your risk?
- What were they designed to do?
- Is the design effective?
- Are the internal controls operating effectively?

Yes = test No = fix

- Document, document, document

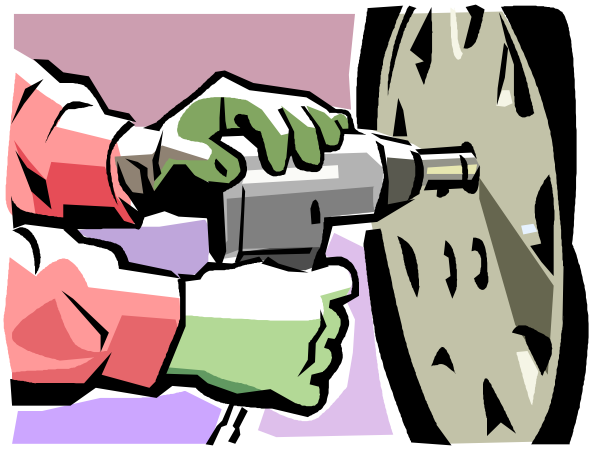
Process: Design a Test Plan

Test Controls:

- **Design test plan**
  - **Interview**
  - **Observe**
  - **Inspect**
  - **Reperform**
  - **Obtain external certification**
- **Document plan**
- **Perform testing**

Process: Design a Test Plan

- Designing the key internal control test
  - What was the control designed to do?
  - Is the design working?
  - Opera
  - Opera



Process: Prepare to Test

Test Controls:

- **Choose a sample**
  - **First, determine acceptable tolerance level**
  - **Second, establish your universe**
  - **Third, identify frequency of transaction**
  - **Fourth, determine yo size and sites**

Process: Assess ICs

Test Controls:

- **Perform testing**
  - **Unexpected errors?**
  - **Is there an anomaly? Perform more tests!**
- **Document results—Don't change your tolerance level !!!**
- **Your results determine your assurance**

Process: Document Results

Document analysis and test results using DoD forms.

Control Analysis

Entity **Defense Aircraft Agency***

Preparer **John Doe**

Account Line: **FBWT**

Business Cycle, Accounting Application	Risk	Control Number	Internal Control Currently In Place	(14) Control Test Objective	(15) Description of Design Test	(16) Was Control Design Effective?	(17) Description of Control Operation Test	(18) Was Control Operation Effective?	(19) New Control Risk Level
Payroll	The DCPDS will accept invalid data entered by HR	1	DCPDS has edits to reject invalid data	To Support that the Control Risk is Low	Input invalid data to verify if data would reject and produce error message	No	Observe HR person input invalid data into the DCPDS	Yes	Moderate
Payroll	HR omitted data (i.e. pay grade and Social Security number) into employees DCPDS profile	1	DCPDS has edits to reject incomplete employees profile	To Support that the Control Risk is Low	If data is omitted from input screen would DCPDS produce an error message.	No	Observe HR person attempt to omit data (i.e. Social Security number) data into the DCPDS	Yes	Moderate

Document, document, document

Process: Correction Plans

- Develop corrective action plans for material weaknesses

  -- Prescribed format

  -- Enter in the DoD Financial Improvement web-based tool

- Document, document, document

DoD Requirements

- Schedule of Deliverables:

What	When
Flow Charts	December 20, 2005
Risk Assessment	February 1, 2006
List of Controls	March 20, 2006
IC Evaluations	June 30, 2006
Corrective Action Plans	June 30, 2006

Guidance

- OMB Circular 123, Appendix A, as revised in 2004
- OMB Appendix A implementation guidance, released July 2005
- DoD guidance
  - Forms will be on Comptroller/FMFIA website
  - Provides examples
  - Web-based tool available on line
- DFAS flowcharts available at:

  https://Dfas4dod.dfas.mil/library/opr/

DoD Statement

You are the arms and legs of DoD!

Consequences or Benefits?

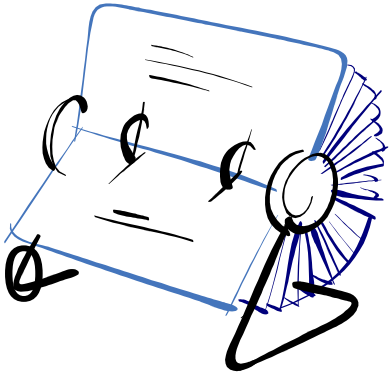
- You will meet people who are really responsible for your numbers--**new friends**.
- You may end up standardizing various processes that do the same thing.
- You may reduce redundancy and rework.
- Your internal controls get stronger.
- Your entity becomes more efficient.
- Leaders have better information for making decisions.

Questions ???

CONTACT

Mary Braun

703-602-0300 x 120



mary.braun@osd.mil